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Sent: 3/12/2008 5:27 AM.

To: Callan, Erin [ecallan@lehman.com].

Cc: .

Bcc: .

Subject: Just got this note from one of our em traders. Fyi.

Hi- Sent a bbg earlier ..not sure if you saw it. But I am starting to get a little freaked out over the dealer counterparty credit situation. I was out for dinner tonight with GLG and they reiterated what everyone has been insinuating. I also met a guy from the Citi Ldn credit dept tonight who affirmed the same story. The dealers are refusing to take assignment of any Bear or LEH trades for the most part that are in-the-money. The basic rationale being "what happens if they don't meet the margin call the next day?". But if you read between the lines it just seems like an excuse not to pay out the cash nor do they want to pay funding on the MTM. So, for the clients that are pushing back on this BS, they are taking the assignments but only after charging for counterparty credit exposure and funding on the MTM. Apparently, HSBC has completely taken themselves out of the novation protocol. To me, this is a very slippery slope. All we need is dealer liquidity to seize up coupled with haircut increases across credit products - that has the makings of a true disaster

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